

Report of the auditor-general to the Northern Cape Provincial Legislature and the council on Khai-ma local municipality

Report on the audit of the financial statements

Qualified opinion

1. I have audited the financial statements of the khai-ma local municipality set out on pages X to X, which comprise the statement of financial position as at 30 June 2019, the statement of financial performance, statement of changes in net assets, cash flow statement and the statement of comparison of budget information with actual information for the year then ended, as well as the notes to the financial statements, including a summary of significant accounting policies.
2. In my opinion, except for the possible effects of the matters described in the basis for qualified opinion section of this auditor's report, the financial statements present fairly, in all material respects, the financial position of the Khai-ma local municipality as at 30 June 2019, and its financial performance and cash flows for the year then ended in accordance with the Standards of Generally Recognised Accounting Practice (GRAP) and the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2017 (Act No. 3 of 2017) (Dora).

Basis for qualified opinion

Property, plant and equipment

3. I was unable to obtain sufficient appropriate audit evidence for the restatement of the corresponding figure for community assets. As described in note 2, the restatement was made to rectify a previous year misstatement, but the restatement could not be substantiated by supporting audit evidence due to the status of accounting records. I was unable to confirm the restatement by alternative means. Consequently, I was unable to determine whether any further adjustments relating to the community assets stated at R13 264 818 (2018: R11 196 608) and accumulated depreciation and accumulated impairment stated at R6 415 043 (2018: R5 949 694) in note 2 to the financial statements were necessary.
4. The municipality did not have adequate systems in place to account for solid waste infrastructure assets in terms *GRAP 17, Property, plant and equipment*. I was not able to determine the full extent of the misstatement to solid waste infrastructure assets stated at R5 331 736 (2018: R9 480 456) in note 2 to the financial statements were necessary as it was impracticable to do so. Consequently depreciation and accumulated depreciation were misstated by an unknown amount. Additionally there is a consequential impact on the deficit and accumulated deficit for the period.
5. The municipality did not have adequate systems in place to account for land in terms *GRAP 17, Property, plant and equipment* resulting in a understatement of land in the property, plant and equipment note by R1 046 000.

Receivables from exchange transactions

6. I was unable to obtain sufficient appropriate audit evidence to the provision for impairment on exchange receivables in accordance with *GRAP 104, Financial instruments*, due to a lack in systems at the municipality to provide sufficient and appropriate audit evidence. Consequently, I was unable to determine whether any adjustments to receivables from exchange stated at R48 508 569 (2018: R39 739 987) in note 7 of the financial statements were necessary.
7. The municipality did not recognise all service charges that have accrued in accordance with *GRAP 9, Revenue from exchange transactions*. As the municipality did not maintain adequate and complete records of services rendered, I was unable to determine the full extent of the understatement of service charges for the current and prior year as it was impracticable to do so. Consequently, trade receivables from exchange transactions and taxes were understated. Additionally, there was an impact on the water and electricity losses, the deficit for the period and on the accumulated deficit.

Receivables from non-exchange transactions

8. I was unable to obtain sufficient appropriate audit evidence to the provision for impairment on non – exchange receivables in accordance with *GRAP 104, Financial instruments*, due to a lack in systems at the municipality to provide sufficient and appropriate audit evidence. Consequently, I was unable to determine whether any adjustments to receivables from non-exchange stated at R4 078 982 (2018: R3 845 080) in note 8 of the financial statements were necessary.

Current and non-current provisions

9. The municipality did not recognise the provision for rehabilitation of landfill sites in accordance with *GRAP 19, Provisions, contingent liabilities and contingent assets*. The methods and assumptions applied in the calculation of the provision for rehabilitation of landfill sites are not considered reasonable. I was not able to determine the full extent of the misstatement to provisions stated at R27 108 353 (2018: R25 765 948) in note 11 to the financial statements as it was impracticable to do so. Additionally there is a consequential impact on the deficit and accumulated deficit for the period.

Inventory

10. I was unable to obtain sufficient appropriate audit evidence to confirm inventory for the current and prior year, due to a lack in systems at the municipality to provide sufficient and appropriate audit evidence. I was unable to confirm this by alternative means. Consequently, I was unable to determine whether any adjustments to inventory stated at R2 202 625 (R2018: R1 339 531) in note 6 of the financial statements were necessary.

Fruitless and Wasteful expenditure

11. The municipality did not disclose all the fruitless and wasteful expenditure in the notes to the financial statements, as required by section 125(2)(d)(i) of the MFMA. The municipality incurred expenditure in vain that would have been avoided had reasonable care been exercised, resulting in fruitless and wasteful expenditure being understated in the current year. I was unable to determine the full extent of the understatement as it was impracticable to do so.

Context for the opinion

12. I conducted my audit in accordance with the International Standards on Auditing (ISAs). My responsibilities under those standards are further described in the auditor-general's responsibilities for the audit of the financial statements section of this auditor's report.
13. I am independent of the municipality in accordance with sections 290 and 291 of the International Ethics Standards Board for Accountants' *Code of ethics for professional accountants* and, parts 1 and 3 of the International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants (including International Independence Standards)* (IESBA codes) as well as the ethical requirements that are relevant to my audit in South Africa. I have fulfilled my other ethical responsibilities in accordance with these requirements and the IESBA codes.
14. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

Material uncertainty relating to going concern

15. I draw attention to the matter below. My opinion is not modified in respect of this matter.
16. The financial statements indicates that the municipality's current liabilities exceeded its current assets by R46 014 321 (2018:R42 726 364), and operated at a net deficit of R3 538 432 at year-end. This, in addition to the other matters mentioned in note 56 to the financial statements, confirms that material uncertainty exist over the municipality's ability to continue as a going concern.

Emphasis of matters

17. I draw attention to the matters below. My opinion is not modified in respect of these matters.

Restatement of corresponding figures

18. As disclosed in note 41 to the financial statements, the corresponding figures for 30 June 2018 have been restated as a result of an error in the financial statements of the municipality at, and for the year ended, 30 June 2019.

Material underspending

19. As disclosed in note 47.1 to the financial statements, the municipality materially underspent the final budget by R2 131 610 on the corporate services vote.

Irregular expenditure

20. As disclosed in note 47.3.1 to the financial statements, the municipality incurred irregular expenditure of R5 880 089 (2018: R11 842 220) during the year under review mainly due to non-compliance with supply chain management requirements. In addition, the full extent of irregular expenditure is still in the process of being determined.

Other matters

21. I draw attention to the matters below. My opinion is not modified in respect of these matters.

Unaudited disclosure notes (MFMA 125)

22. In terms of section 125(2)(e) of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA), the municipality is required to disclose particulars of non-compliance with the MFMA in the financial statements. This disclosure requirement did not form part of the audit of the financial statements and, accordingly, I do not express an opinion on it.

Unaudited supplementary schedules

23. The supplementary information set out on pages X to X does not form part of the financial statements and is presented as additional information. I have not audited these schedules and, accordingly, I do not express an opinion thereon.

Responsibilities of the accounting officer for the financial statements

24. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with GRAP and the requirements of the MFMA and the DORA and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

25. In preparing the financial statements, the accounting officer is responsible for assessing the Khai-Ma Local Municipality's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the appropriate governance structure either intends to liquidate the municipality or to cease operations, or has no realistic alternative but to do so.

Auditor-general's responsibilities for the audit of the financial statements

26. My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of financial statements.

27. A further description of my responsibilities for the audit of the financial statements is included in the annexure to this auditor's report

Introduction and scope

28. In accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and the general notice issued in terms thereof, I have a responsibility to report material findings on the reported performance information against predetermined objectives for selected strategic objectives presented in the annual performance report. I performed procedures to identify findings but not to gather evidence to express assurance.
29. I was engaged to evaluate the usefulness and reliability of the reported performance information in accordance with the criteria developed from the performance management and reporting framework, as defined in the general notice, for the following selected development objectives presented in the annual performance report of the municipality for the year ended 30 June 2019:

Development objectives	Pages in the annual performance report
KPA 1: Basic services and infrastructure	x – x
KPA 3: Local economic development	x – x

30. I performed procedures to determine whether the reported performance information was properly presented and whether performance was consistent with the approved performance planning documents. I performed further procedures to determine whether the indicators and related targets were measurable and relevant, and assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.
31. The material findings in respect of the usefulness and reliability of the selected development objectives are as follows:

KPA 1: Basic services and infrastructure

Various indicators

32. I was unable to obtain sufficient appropriate audit evidence regarding the annual performance report for all the selected strategic objectives listed below as the annual performance report was presented without accurate and complete underlying (performance) records to audit usefulness and reliability of reported performance information. This was due to limitations placed on the scope of my work. I was unable to audit the reported performance information relating to the annual performance report for selected development priorities listed below by alternative means:

Indicator description	Planned target	Reported achievement
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The percentage of households with access to basic level of water, sanitation, electricity and solid waste removal	100%	97%
Nr of Applications for funding to develop/ upgrade services	4	4
Nr of amenities/ facilities under control of the Municipality available to the community;	4	4

KPA 3: Local economic development

Various indicators

33. I was unable to obtain sufficient appropriate audit evidence regarding the annual performance report for all the selected strategic objective listed below as the annual performance report was presented without accurate and complete underlying (performance) records to audit usefulness and reliability of reported performance information. This was due to limitations placed on the scope of my work. I was unable to audit the reported performance information relating to the annual performance report for selected development priorities listed below by alternative means:

Indicator description	Planned target	Reported achievement
Nr of development stands are developed and available to potential businesses	5	1
Nr of jobs created through the municipality's LED initiatives including capital projects including EPWP	100	115
% of households with an less than 2 state grants	100%	100%
% of the municipality's capital budget actually spent of capital projects identified for a particular financial year in terms of the municipality's IDP	100%	96%
Percentage of the municipality's capital budget actually spent of capital projects identified for a particular financial year in terms of the municipality's Intergrated Development plan	100%	100%

Other matter

34. I draw attention to the matter below.

Achievement of planned targets

35. Refer to the annual performance report on pages X to X for information on the achievement of planned targets for the year. This information should be considered in the context of the material findings on the usefulness and reliability of the reported performance information in paragraphs X to X of this report.

Report on the audit of compliance with legislation

Introduction and scope

36. In accordance with the PAA and the general notice issued in terms thereof, I have a responsibility to report material findings on the compliance of the municipality with specific

matters in key legislation. I performed procedures to identify findings but not to gather evidence to express assurance.

37. The material findings on compliance with specific matters in key legislations are as follows:

Annual Financial Statements, performance reports and annual reports

38. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122(1) of the MFMA. Material misstatements of non-current assets, current assets and revenue identified by the auditors in the submitted financial statements were subsequently corrected and the supporting records were provided subsequently, but the uncorrected material misstatements and supporting records that could not be provided resulted in the financial statements receiving a qualified audit opinion.

39. The oversight report adopted by the council on the 2017/18 annual report was not made public, as required by section 129(3) of the MFMA.

Expenditure management

40. Money owed by the municipality was not always paid within 30 days, as required by section 65(2)(e) of the MFMA.

41. Reasonable steps were not taken to ensure that the municipality implements and maintains an effective system of expenditure control, including procedures for the approval, authorisation, payment of funds, as required by section 65(2)(a) of the MFMA.

42. Reasonable steps were not taken to prevent irregular expenditure amounting to R5 566 454 as disclosed in note 47.3 to the annual financial statements, as required by section 62(1)(d) of the MFMA. The majority of the disclosed irregular expenditure was caused by non-compliance with SCM regulations. Irregular expenditure amounting to R3 135 145 was incurred on Onseepkans Bulk water supply and Pofadder Rehabilitation Sewerage pump installation.

43. Reasonable steps were not taken to prevent fruitless and wasteful expenditure amounting to R1 482 055, as disclosed in note 47.2 to the annual financial statements, in contravention of section 62(1)(d) of the MFMA. The majority of the disclosed fruitless and wasteful expenditure was caused by the interest accrued on overdue accounts.

44. Reasonable steps were not taken to prevent unauthorised expenditure amounting to R2 806 682, as disclosed in note 47.1 to the annual financial statements, in contravention of section 62(1)(d) of the MFMA. The majority of the unauthorised expenditure was caused by overspending on Infrastructure development vote.

Asset management

45. Capital assets were disposed of without the municipal council having in a meeting open to the public, to decide on whether the assets were still needed to provide the minimum level of basic municipal services and considered the fair market value of the assets and the economic and community value to be received in exchange for the assets, as required by section 14(2)(a) and 14(2)(b) of the MFMA.

Strategic planning and performance management

46. The SDBIP for the year under review

- did not include monthly revenue projections by source of collection and
- the monthly operational and capital expenditure by vote, and
- the service delivery targets and performance indicators for each quarter,

as required by section 1 of the MFMA.

47. A performance management system was not established, as required by section 38(a) of the MSA

48. Amendments to the IDP were made without consultation with the district municipality, as required by municipal planning and performance management reg 3(6)(a)

Procurement and contract management

49. Some of the goods and services with a transaction value of below R200 000 were procured without obtaining the required price quotations, in contravention of by SCM regulation 17(a) and (c).

50. Quotations were accepted from bidders who did not submit a declaration on whether they are employed by the state or connected to any person employed by the state, as required by SCM regulation 13(c).

51. The preference point system was not applied to some of the procurement of goods and services above R30 000 as required by section 2(a) of the Preferential Procurement Policy Framework Act. Similar non-compliance was also reported in the prior year.

52. Some of the contracts were extended or modified without the approval of a properly delegated official, in contravention of SCM regulation 5.

53. The performance of some of the contractors or providers was not monitored on a monthly basis, as required by section 116(2)(b) of the MFMA.

54. The contract performance and monitoring measures and methods were not sufficient to ensure effective contract management, as required by section 116(2)(c) of the MFMA. Similar non-compliance was also reported in the prior year.

Human resource management

55. Appropriate systems and procedures to monitor, measure and evaluate performance of staff were not developed and adopted as required by section 67(1)(d) of the Municipal Systems Act.

Revenue management

56. An effective system of internal control for revenue was not in place, as required by section 64(2)(f) of the MFMA.

57. Revenue due to the municipality was not calculated on a monthly basis, as required by section 64(2)(b) of the MFMA.

Consequence management

58. Unauthorised expenditure incurred by the municipality was not investigated to determine if any person is liable for the expenditure, as required by section 32(2)(a) of the MFMA.
59. Irregular expenditure incurred by the municipality were not investigated to determine if any person is liable for the expenditure, as required by section 32(2)(b) of the MFMA.
60. Fruitless and wasteful expenditure incurred by the municipality was not investigated to determine if any person is liable for the expenditure, as required by section 32(2)(b) of the MFMA.

Other information

61. The accounting officer is responsible for the other information. The other information comprises the information included in the annual report. The other information does not include the financial statements, the auditor's report and those selected development objectives presented in the annual performance report that have been specifically reported in this auditor's report.
62. My opinion on the financial statements and findings on the reported performance information and compliance with legislation do not cover the other information and I do not express an audit opinion or any form of assurance conclusion thereon.
63. In connection with my audit, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements and the selected development objectives presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated.
64. I did not receive the other information prior to the date of this auditor's report. When I do receive and read this information, if I conclude that there is a material misstatement therein, I am required to communicate the matter to those charged with governance and request that the other information be corrected. If the other information is not corrected, I may have to retract this auditor's report and re-issue an amended report as appropriate. However, if it is corrected this will not be necessary

Internal control deficiencies

65. I considered internal control relevant to my audit of the financial statements, reported performance information and compliance with applicable legislation; however, my objective was not to express any form of assurance on it. The matters reported below are limited to the significant internal control deficiencies that resulted in the basis for the disclaimer of opinion, the findings on the annual performance report and the findings on compliance with legislation included in this report.
66. The leadership did not develop a performance management system to report on service delivery. Leadership did not hold municipal staff accountable as the performance system was

not implemented. The leadership did not ensure that the municipality complied with applicable legislation as material findings on compliance with legislation were raised in the year under review. The municipality's internal processes and systems did not prevent material non-compliance or irregular, unauthorised as well as fruitless and wasteful expenditure. The leadership compiled an action plan based on audit report findings; however, it did not adequately monitor the existing action plan to ensure that corrective action was taken when required and within the required time frames. This resulted in similar material findings recurring in the current financial year.

67. Material amendments had to be made to the financial statements as these were not accurate and complete. This is an indication of weaknesses in internal control with regard to the review process of the financial statements. Management did not regularly review and monitor their compliance with legislation and internally designed policies and procedures. As a result, we noted significant non-compliance issues that could have been prevented.
68. The municipality did establish an internal audit unit and an audit committee but the internal audit unit and the audit committee did not function effectively. The municipality conducted a risk assessment no review or monitoring of the risks identified, took place.

Auditor General
Kimberley

29 November 2019



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence

Annexure – Auditor-general's responsibility for the audit

1. As part of an audit in accordance with the ISAs, I exercise professional judgement and maintain professional scepticism throughout my audit of the financial statements, and the procedures performed on reported performance information for selected development objectives and on the municipality's compliance with respect to the selected subject matters.

Financial statements

2. In addition to my responsibility for the audit of the financial statements as described in this auditor's report, I also:
 - identify and assess the risks of material misstatement of the financial statements whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control
 - obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the municipality's internal control
 - evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the accounting officer
 - conclude on the appropriateness of the accounting officer's use of the going concern basis of accounting in the preparation of the financial statements. I also conclude, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Khai-ma local municipality's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements about the material uncertainty or, if such disclosures are inadequate, to modify the opinion on the financial statements. My conclusions are based on the information available to me at the date of this auditor's report. However, future events or conditions may cause a municipality to cease continuing as a going concern
 - evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation

Communication with those charged with governance

3. I communicate with the accounting officer regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

I also confirm to the accounting officer that I have complied with relevant ethical requirements regarding independence, and communicate all relationships and other matters that may reasonably be thought to have a bearing on my independence and, where applicable, related safeguards.